Commerce

20. A trader whose current sales are Rs 15 Lakhs per annum and average collection per annum and average collection period is 30 days wants to pursue a more liberal credit policy to improve sales. A study made by a consultant firm reveals the following information:

Credit policy	Increase in collection period	Increase in sales
A	15 days	Rs 60,000
B	30 days	Rs 90,000
C	45 days	Rs 1,50,000
D	60 days	Rs 1,80,000
E	90 days	Rs 2,00,000

The selling price per unit is Rs.5. Average cost per unit is Rs 4 and variable cost per unit is Rs 2.75. The required rate of return on additional investment is 20%. Assume 360 days in a year and also assume that there are no bad debts. Which of the above policies would you recommended for adoption.

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APRIL/MAY 2023

DCM11/DCP11/GCM11/GCP11 — FINANCIAL MANAGEMENT

Time : Three hours Maximum : 75 marks

SECTION A — (10 × 2 = 20 marks)

Answer ALL questions.

1. Describe in brief the aims of finance function.
2. Is it fair to say that the overall goal of a firm is profitability with the limiting factor of liquidity?
3. Write a short note on Bank credit.
4. State the purpose of long term finance.
5. What do you understand by Trading on equity?
6. Write a short note on stable dividend policy.
7. Define capital budgeting.
8. A project cost Rs 2,50,000 and yield an annual cash flow of Rs 50,000 for 7 years. Calculate its payback period.
9. State any two objectives of cash management.
10. Write a short note on management of inventory.

SECTION B — (5 × 5 = 25 marks)

Answer ALL questions.

11. (a) Explain the objectives of financial management.

Or

(b) Explain the concept of wealth in the context of wealth maximization objective.

12. (a) Critically examine the advantages and disadvantages of raising funds by issuing shares of different types.

Or

(b) From the following details you are required to make an assessment of the average amount of working capital requirement of AB Ltd.

Items	Average period of credit	Estimate for the First year (Rs)
Purchase of material	6 weeks	26,00,000
Wages	1 ½ weeks	19,50,000
Over heads: Rent, rates ect..	6 months	1,00,000
Salaries	1 month	8,00,000
Other overheads	2 months	7,50,000
Sales (cash)	---	2,00,000
Sales (credit)	2 months	60,00,000

19. A company is considering an investment proposal to install new milling controls. The project will cost Rs 50,000. The facility has a life expectancy of 5 years and no salvage value. The company's tax rate is 55% and no investment allowance is allowed. The firm uses straight line depreciation. The estimated cash flow before tax (CFBT) from the proposed investment proposal is as follows:

Year	1	2	3	4	5
CFBT	10,000	11,000	14,0000	15,000	25,000

Compute the following:

(a) Payback period (b) Average Rate of Return (c) Internal Rate of Return (d) Net Present Value at 10% discount rate (e) Profitability Index at 10% discount rate.

Year/PV at 10%	Year 1	Year 2	Year 3	Year 4	Year 5
At 6%	0.943	0.890	0.840	0.792	0.747
At 7%	0.935	0.873	0.816	0.763	0.713
At 10%	0.909	0.826	0.751	0.683	0.621

SECTION C — (3 × 10 = 30 marks)

Answer any THREE questions.

16. "Assuming wealth maximization to be the objective of the financial management, show how the financing, investment and dividend decisions of a company can help to attain this objective".

17. What are the main sources of finance available to industries for meeting short term as well as long term financial requirements? Discuss.

18. Anand corporation Ltd belongs to a risk class of which the appropriate capitalization rate is 10%. It currently has 1,00,000 shares quoting Rs 100 each. The company proposes to declare a dividend Rs 6 per share at the end of the current fiscal year which has just begun.

Answer the following questions based on Modigliani and miller Model and assumption of no taxes:

(a) What will be the price of the share at the end of the year if dividend is not declared?

(b) What will be the price if the dividend is declared?

(c) Assuming that the company pays dividends, has a net income of Rs 10 lakhs an plan's new investment of Rs 20 Lakhs during the period, how many new shares must be issued?

(d) Is the MM model realistic? What factors might Mar its validity

Items	Average period of credit	Estimate for the First year (Rs)
Average amount of stock and working progress	---	4,00,000
Average amount of undrawn profit		3,00,000

It is assumed that all expenses and incomes were made at even rate for the year.

13. (a) One-up limited has equity share capital of Rs 5,00,000 divided into shares of Rs 100 each. It wishes to raise further Rs 3,00,000 for expansion-cum-modernization scheme. The company plans the following financing alternatives.

(i) By issuing equity shares only

(ii) Rs 1,00,000 by issuing equity shares and Rs 2,00,000 through debentures or term loan @10% per annum

(iii) By raising term loan only at 10% per annum

(iv) Rs 1,00,000 by issuing equity shares and Rs 2,00,000 by issuing 8% preference shares

You are required to suggest the best alternative giving your comment assuming that the estimated earnings before interest and taxes (EBIT) after expansion is Rs 1,50,000 and corporate tax is 35%

Or

(b) The following figures relate to two companies

Particulars	P LTD (in Rupees Lakhs)	Q LTD (in Rupees Lakhs)
Sales	500	1,000
Variable cost	200	300
Contribution	300	700
Fixed cost	150	400
EBIT	150	300
Interest	50	100
Profit before Tax	100	200

You are required to : (i) Calculate the operating, financial and combined leverage for the two companies and (ii) Comment on the relative risk position of them.

14. (a) State the differences between NPV and IRR.

Or

(b) Anbu co Ltd is considering the purchase of new machine. Two alternative machines (X and Y) have been suggested each costing Rs 4,00,000. Earnings after taxation are expect to be as follows:

Year	Cash flow Machine X (Rs)	Cash flow Machine Y (Rs)
1	40,000	1,20,000
2	1,20,000	1,60,000
3	1,60,000	2,00,000
4	2,00,000	1,20,000
5	1,60,000	80,000

The company has a target rate of return on capital of 10% and on this basis, you are required to compare the profitability of the machines and state which alternative is preferable. The present value of Rs 1 (to be received at the end of each year)

Year	1	2	3	4	5
Present Value	0.909	0.826	0.751	0.683	0.621

15. (a) Find the EOQ and order schedule for raw materials and packing materials with the following data given to you:

(i) Cost of ordering: Raw materials: Rs 1,000 per order

Packing materials: Rs 5,000 per order

(ii) Cost of holding inventory: Raw materials: 1 paise per unit P.m

Packing materials: 5 paise per unit P.m

(iii) Production rate: 2, 00,000 unit per month

Or

(b) The following forecast are provided in respect of Ellis Ltd for the year 2019:

Sales :	Rs 13,50,000
Purchases :	Rs. 9,00,000
Cost of goods sold:	Rs.9,15,000
Average debtors:	Rs.1,50,000
Average creditors:	Rs.1,52,000

Find out the cash operating cycle given that all sales and purchases are made on credit.